

Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 PA-01 PRS-01 USIA-06 /090 W

----- 024036

R 240954Z JAN 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7549

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SEOUL

AMEMBASSY STOCKHOLM

USMISSION USEC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L TOKYO 1035

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, JA

SUBJECT: TOKYO FOREX MARKET DEVELOPMENTS

REF: TOKYO 0366

SUMMARY: CONTRARY TO USUAL JAN PATTERN, DOLLAR HAS
WEAKENED ON TOKYO FOREX MARKET. SHARP DECLINE TOWARD END
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OF WEEK OCCURRED AS TRADING COMPANIES AND BANKS REACTED

TO DOLLAR DECLINE IN NEW YORK AND EUROPE AS WELL AS
IMPROVING EXPORT OUTLOOK FOR JAPAN. END SUMMARY.

1. REFLECTING WEAKNESS IN EUROPEAN MARKETS, THE DOLLAR
HAS DECLINED IN TOKYO DURING THE PAST WEEK. AT THE
BEGINNING OF THE WEEK (MON, JA 20) CENTRAL SPOT RATE WAS
300.99 YEN PER DOLLAR; AFTER EASING WED TO 300.75 YEN,
DOLLAR SLID ON THURS TO 299.90. SPEED OF THAT DECLINE
PLUS THURS NIGHT PURCHASES OF YEN BY BANKS IN NEW YORK
PROMPTED SEVERAL TRADING COMPANIES TO IMMEDIATELY SELL
EXPORT BILLS MATURING NEXT WEEK, AND FRI CENTRAL RATE
DROPPED SHARPLY TO 297.75.

2. JAN IS NORMALLY A MONTH WHEN SPOT YEN IS WEAK, AS
EXPORT RECEIPTS ARE USUALLY 25 PERCENT BELOW AVERAGE.

FOUR FACTORS WERE CITED BY BOJ SOURCE AS HELPING TO
STRENGTHEN YEN NOW: (A) REACTING TO EUROPEAN INTEREST
RATES AND FAVORABLE RATE IN TOKYO DOLLAR CALL MARKET,
FOREIGN BANKS HAVE SOLD \$300 MIL SINCE BEGINNING OF YEAR.
THESE BANKS HAVE NOW NEARLY REACHED THEIR SWAP LIMITS
AND LITTLE ADDITIONAL DOLLAR SUPPLY CAN BE EXPECTED FROM
THIS SOURCE IN JAN; (B) EXPORTS APPEAR TO HAVE RECOVERED
(S.A.) FROM NOV-DEC; (C) THERE HAS BEEN SOME INFLOW
(\$80 MIL) OF IMPACT LOANS DURING THIS MONTH; (D) DOLLAR
DEMAND FOR OIL PAYMENTS HAS DIPPED SLIGHTLY REFLECTING
RELATIVELY LOW LEVEL OF OIL IMPORTS IN OCT 74.

3. PRINCIPAL IMPACT OF DEVELOPMENTS IN EUROPEAN MARKETS
HAS BEEN ON THE FORWARD RATE WHICH HAS NOW SHIFTED FROM
DOLLAR PREMIUM TO DOLLAR DISCOUNT. INTEREST RATES IN
EURO-DOLLAR MARKET ARE APPROXIMATELY 8 PERCENT, WHEREAS
INTEREST RATE IN TOKYO DOLLAR CALL MARKET REMAINS AT 12.5
PERCENT, MAKING IT QUITE PROFITABLE TO BRING DOLLARS INTO
THE DOLLAR CALL MARKET. IN RESPONSE TO QUESTION ABOUT FULL
UTILIZATION OF SWAP LINE AND IMPACT LOANS CEILINGS ON
DOMESTIC MONETARY CONDITIONS, BOJ SOURCE AGREED THAT THIS
SITUATION COULD POSE PROBLEMS FOR DOMESTIC POLICY. HE
FURTHER INDICATED THAT BUSINESS DEPARTMENT OF BANK OF JAPAN
HAD RAISED THE MATTER WITH THE FOREIGN DEPARTMENT BUT HAD
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NOT DEMANDED REVISION OF IMPACT LOAN GUIDELINES YET.

4. SINCE TOKYO FOREX MARKET QUITE NARROW, MARKET PSYCHOLOGY
IS PRONE TO RELATIVELY SWIFT CHANGES. AT MOMENT, TRADING
CORPORATIONS AND BANKS APPEAR TO BE REASSESSING POSITIONS
THEY HAD TAKEN IN RECENT WEEKS. MARKET COULD MOVE TO
295 YEN PER DOLLAR AS NEW REFERENCE POINT FOR SOME TIME.
IF SO THAT DEVELOPMENT IS LIKELY TO OCCUR QUITE SOON.

5. FOLLOWING ARE DATA FOR SPOT AND FORWARD DOLLAR RATES
AND VOLUMES DURING PAST WEEK:

	SPOT RATE	3-MO FWD	6-MO FWD	SPOT VOL
	YEN/DOL	(DOL PREMIUM	PCT P.A.)	(MIL DOL)
JAN 20	300.99	PLUS 0.146	PLUS 0.737	90.70
JAN 21	300.90	PLUS 0.199	PLUS 0.830	47.20
JAN 22	300.75	MINUS 0.332	PLUS 0.365	41.48
JAN 23	299.90	MINUS 0.400	MINUS 0.200	42.46
JAN 24	297.75	PLUS 0.940	PLUS 0.638	62.89

WEEKLY FWD VOL WAS \$563.70 MIL AND SWAP VOL \$496.82 MIL
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